



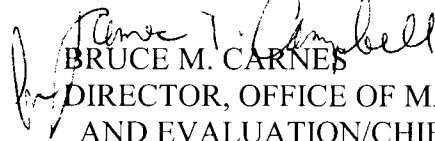
## Department of Energy

Washington, DC 20585

MAR 01 2003

### MEMORANDUM FOR HEADS OF FIELD ELEMENTS

FROM:

  
BRUCE M. CARNES

DIRECTOR, OFFICE OF MANAGEMENT, BUDGET  
AND EVALUATION/CHIEF FINANCIAL OFFICER

SUBJECT: Results of Reviews of Departmental Purchase Card Programs

In July 2002, I requested 32 of the Department of Energy's Federal and contractor purchase card program activities to perform self-assessment reviews under the auspices of the Department's Chief Financial Officers. The sites were selected as a representative sample. This memorandum transmits the results of those reviews and contains recommendations applicable to all Departmental and contractor locations with purchase card programs.

The Department supports the use of well-controlled purchase card programs to streamline acquisition processes; however, it is important that strong systems of internal control be in place to protect against fraud, waste and abuse. Reviews of the Department's purchase card programs revealed a need to improve the control environment over Federal and contractor purchase card programs. Instances were identified where cardholders and approving officials did not follow established procedures, and where existing controls and procedures were not adequate to safeguard against misuse. Major causes included: ineffective implementation of basic controls such as prior authorization of purchases and approving official reviews, a proliferation of cardholders, inadequate training, and a lack of specific criteria for cardholder and approving official accountability for purchases.

The attached report identifies areas where adequate controls were not in place and where existing controls were not working effectively, as well as recommendations for improving the overall control environment of the Department's purchase card programs by strengthening controls and procedures; increasing oversight and accountability; and, improving training for cardholders, approving officials, and program coordinators.

Heads of Contracting Activities (HCAs) should utilize this report as a tool for driving improvement in the Federal and contractor purchase card programs under your cognizance. HCAs should ensure that program coordinators implement all recommendations in the report and document their improvement efforts to support future reviews and audits. In addition, program coordinators should take all necessary steps to ensure that specific purchasing problems identified at their sites (e.g., missing documentation and property control issues) have been resolved. This includes obtaining all missing documentation identified during the reviews and any other appropriate steps such as ensuring that property acquired with purchase cards has been properly tagged and recorded as necessary into property records.



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In addition, I would like to stress the importance of individual accountability in managing our purchase card programs. Failure to establish and enforce strong processes for accountability creates an environment where cardholders and approving officials see no consequences for their actions and increases the risk of fraud, waste and abuse. Local program coordinators must establish clear, up-front policies and criteria defining responsibility and accountability for employees who have been given the privilege of cardholder or approving official status.

In the coming months, my office will be completing on-site validation reviews of Departmental purchase card programs. I look forward to reports of improved programs and a stronger overall control environment. I appreciate your cooperation and immediate attention to this matter. If you have any questions, please contact John Newell of my office at (202) 586-9672.

Attachment

cc: Under Secretaries  
Assistant Secretaries  
Heads of Contracting Activities

**U.S. Department of Energy**

**Report on Review of Departmental  
Purchase Card Programs**



**February 2003**

Office of Program Liaison and Financial Analysis  
Office of Management, Budget and Evaluation/  
Chief Financial Officer

## Table of Contents

1) Results in Brief	1
2) Background	3
3) Objective / Scope / Methodology	4
4) Detailed Results	5
a) Cardholder Oversight Control Problems	5
b) Cardholder Purchasing Problems	7
c) Program Oversight Issues	12
5) Conclusions	14

## ATTACHMENT

### Summary of Recommendations

## RESULTS IN BRIEF

Self-assessment reviews performed at 32 of the Department's 67 purchase card sites showed that Department of Energy (DOE) controls to identify and deter purchase card fraud, waste and abuse could be improved. Since the use of purchase cards by Federal and contractor activities has continued to grow, sufficient management emphasis needs to be placed on ensuring that strong internal controls are established and consistently implemented. Despite the benefits of purchase cards, their use presents a higher level of risk than traditional procurement methods, and requires a strong control environment to ensure that transactions are for authorized purposes and adhere to legal and regulatory requirements. The self-assessment reviews identified instances where cardholders and approving officials did not adhere to established program requirements. Further, areas were identified where controls in place were inadequate to safeguard against misuse.

The reviews identified breakdowns in internal controls including: cardholders not obtaining advance approval for purchases, approving officials not properly approving cardholder statements, and approving officials not identifying and correcting problems with cardholder purchases. These control problems contributed to the number of cardholder purchasing problems identified during the review. Cardholder purchasing problems included: (1) cardholders not maintaining adequate documentation to support purchases; (2) inadequate controls over the receipt and recording of purchased property, as well as failure to follow established controls when they were in place; (3) purchases of prohibited items; (4) cardholders exceeding spending limits and splitting purchases, thereby circumventing spending limits; (5) failure to conduct and/or document competitive selections of vendors where required; and (6) inappropriate payment of taxes. The attachment to this report includes a summary of recommendations for correcting the problems.

A factor contributing to the identified problems was too many cards issued across the Department. Approximately 14,000 (one in eight) Federal and contractor employees had purchase cards for all or part of the period under review. Of the 14,000, there were 2,400 Federal employees and 5,000 contractor employees with purchase cards under the General Services Administration (GSA) SmartPay Program. The remaining 6,600 contractor employees held purchase cards under separate contracts with financial institutions. As the number of cardholders rises, the relative risk of and exposure to misuse increases. Excessive numbers of cardholders may also increase the review workload for approving officials to a level that reduces their effectiveness. Twenty-one of 32 sites had approving officials with approving official to cardholder ratios greater than the one to five ratio recommended in current Departmental guidelines. The two highest ratios noted in the reviews were one to 125 and one to 52. Another factor identified was the lack of consistent and stringent training requirements for approving officials who are responsible for ensuring that cardholder transactions are carried out in accordance with Departmental and local guidelines. Many approving officials had not received formal training and for those who did, the training was often inadequate or had been taken years in the past with no refresher training. While specific problems were identified during the review, there is concern that approving officials did not identify and act to correct these issues when they reviewed the purchases made.

The reviews also identified inadequate processes for implementing individual responsibility and accountability for cardholders and approving officials. Failure to establish strong accountability processes creates an environment where perceived consequences for not adhering to established requirements are minimal. A contributing factor was the lack of consistent corporate and local policies governing the Department's purchase card programs. Corporate guidelines were inconsistently implemented for Federal and contractor SmartPay programs and corporate guidelines were not established for Non-SmartPay contractors.

The control failures noted above represent weaknesses in the overall control environment. Although specific instances of fraud were not found in the transactions sampled during this review, recent allegations of potential fraud at the Los Alamos National Laboratory and at other Federal agencies highlight the need for strong controls and conscientious oversight of purchase card programs Department-wide. While no control system can prevent all fraud, the Department can do more to provide reasonable assurance that controls are adequate to identify and deter potentially fraudulent and abusive transactions.

During the course of the review activities, the Department implemented numerous actions to improve corporate guidance, which should improve internal controls for purchase card programs. Critical actions include: issuing new Departmental guidelines for SmartPay programs that are clearer and have more specific requirements; taking a more proactive role in guiding the activities of non-SmartPay programs by issuing an acquisition letter that defines DOE's expectations for operating and approving contractor programs; issuing guidance on standard disciplinary actions for employees who misuse purchase cards; instituting initial and refresher training requirements for both cardholders and approving officials; expanding requirements for annual reviews of cardholder and approving official activities; and, requiring Department-wide reviews of the number of cardholders and spending limits to ensure that both are maintained at the minimum level necessary to accomplish Departmental missions. We plan to validate the implementation and institutionalization of these corrective actions through review and oversight activities.

## **BACKGROUND**

The Department's purchase card program is part of the government-wide commercial purchase card initiative established to simplify Federal acquisition processes by providing an effective and efficient method for obtaining goods and services directly from vendors. The Department of Energy operates Federal purchase card programs in accordance with General Services Administration (GSA) SmartPay guidelines. The Department's major site operating (cost-reimbursement) contractors are currently permitted to either establish purchase card programs under the GSA "SmartPay" contract or establish separate purchase card programs through direct agreements with financial institutions.

Federal and contractor purchase card programs offer an opportunity for large-scale reductions in administrative burden and significant cost savings. While the benefits may be great, the use of purchase cards to realize those benefits comes with certain inherent risks. In implementing these programs, Federal agencies must design systems of internal control to help prevent fraud and/or ensure that any such occurrences are quickly identified and resolved. Obviously, no system can provide absolute assurance that fraudulent activities will never occur. However, adequate controls should be in place and working effectively to help minimize the risks.

Since fiscal year 1998, the Department's Office of Inspector General has conducted 20 reviews and investigations involving instances in which Federal and contractor employees allegedly misused purchase cards to acquire goods and services for personal use. According to the Office of Inspector General, these activities have resulted in nine criminal convictions and recovery of over \$400,000 in fines, restitution, disallowed costs, and recovered property. In each of these cases, the employees have been prosecuted, fired, and/or resigned. Contractor and grantee officials and contractor internal audit staffs initially identified and reported many of these fraudulent activities which indicates that some managers are actively identifying misuse and properly reporting to the Inspector General.

Widespread abuses of the purchase card program at some government locations have prompted the Office of Management and Budget to initiate actions to ensure that purchase card programs are managed effectively. The Department performed a pilot review in April 2002 at six Departmental sites that disclosed a number of internal control, policy, and operational weaknesses. Those results were transmitted to the Office of Management and Budget (OMB), along with a remedial action plan for improving the internal controls over purchase card transactions. A key milestone in the plan was to complete a Department-wide assessment of purchase card programs. This report presents the results of that assessment.

## **OBJECTIVE**

The objective of the self-assessments was to determine the adequacy of internal controls over the Department's purchase card programs. Specifically, the Department's Office of Management, Budget and Evaluation/Chief Financial Officer designed the reviews to: (1) assess overall management and oversight of the program at the DOE corporate and local levels; and (2) evaluate the control environment to determine if established controls are effectively implemented and provide reasonable assurance that government resources are protected against fraud, waste and abuse.

## **SCOPE AND METHODOLOGY**

The self-assessment reviews encompassed cardholders and related transactions for fiscal year 2001. Approximately 14,000 Federal and contractor employees had purchase cards during the period under review. Of the 14,000, there were 2,400 Federal employees and 5,000 contractors with purchase cards under the GSA SmartPay Program. The remaining 6,600 contractors held purchase cards under their own contracts with credit card organizations.

Thirty-two of the Department's 67 Federal and contractor purchase card locations that were selected as a representative sample of sites performed self- assessment reviews under the auspices of Field Chief Financial Officers. The reviews were performed against cardholder samples provided by the Headquarters Office of Management, Budget and Evaluation/Chief Financial Officer. The reviews included 12 Federal field sites and 13 contractor sites using the SmartPay program, and seven contractor sites using their own purchase card programs (Non-SmartPay). The sample consisted of 389 Federal cardholders whose sampled activity totaled 4,679 transactions and 1,809 contractor cardholders with sampled activity consisting of 23,441 transactions. Table #1 shows details of cardholder records sampled.

### **Purchase Cardholder Accounts Sampled at Thirty-Two Sites**

<b>Table #1</b>				
<b>Program Type</b>	<b>Total Number of Cardholders at Sample sites</b>	<b>Number of Cardholders Sampled</b>	<b>Purchase Card Transactions Sampled</b>	<b>Value of Purchase Card Transactions Sampled</b>
Federal sites – SmartPay	1,154	389	4,679	\$4,084,965
Contractor sites - SmartPay	3,263	1,021	10,377	\$7,496,886
Contractor - Non-SmartPay Sites	4,167	788	13,064	\$7,068,791
<b>Totals</b>	<b>8,584</b>	<b>2,198</b>	<b>28,120</b>	<b>\$18,650,642</b>



At each site, reviews were conducted utilizing statistically valid samples of cardholders and related transactions to evaluate the design and implementation of key internal controls. The results have been projected where possible to the universe of programs under each program type (i.e., SmartPay versus Non-SmartPay). The reviews were not specifically designed to identify the extent of potentially fraudulent and abusive transactions, but to identify opportunities for improving internal controls for deterring and detecting such activities.

### **DETAILED RESULTS**

As previously mentioned, the self-assessment reviews were performed at 32 DOE purchase card sites covering transactions during fiscal year 2001. The reviews covered purchase card programs operated under Federal and contractor SmartPay programs, as well as sites that operate programs under independent agreements with financial institutions.

### **CARDHOLDER OVERSIGHT CONTROL PROBLEMS**

The reviews indicated that effective cardholder oversight controls were not always implemented, leaving the purchase card programs vulnerable to, and increasing the risk of, fraudulent and abusive purchases. Control activities should be designed and implemented to ensure that programs are effectively managed and that government resources are safeguarded against fraud, waste and abuse. The reviews tested those controls critical in creating a system to meet the reasonable assurance criteria and ensure that transactions are proper and correct throughout the purchasing process. Oversight controls tested include:

- Advance approval of purchases to ensure only authorized items are purchased
- Review of statements by approving officials to ensure compliance with documentation and other requirements

#### **Advance Authorization of Purchases**

The reviews identified 1,646 instances where cardholders did not obtain required prior authorization for purchases made. This includes at least one contractor SmartPay site that did not require prior authorization, which represents 1,092 of those transactions. Segregating responsibilities for authorizing and making purchases provides an added level of control that benefits both cardholders and the government and helps protect against fraud, waste and abuse. Independent advance authorization of purchases is a standard control that should be in place in all purchase card programs. Exceptions should not be allowed except in rare special circumstances as approved by Heads of Contracting Activities.

**Recommendation:** Program coordinators should establish and enforce advance authorization requirements as a basic purchase card program control.

### Approving Official Review

The reviews identified 117 instances where approving officials did not review and approve cardholder statements. Approving official reviews are some of the most important internal control activities and serve as the first line of defense to ensure that all cardholder transactions are appropriate and that cardholders have complied with DOE and local requirements in making purchases.

Departmental SmartPay guidelines require that approving officials review and approve all cardholder statements. Review steps should include validating that prior authorization was obtained, ensuring that all required documentation is presented for review, determining if items purchased and prices paid are reasonable, ensuring that purchased property was in fact received, and taking steps to ensure that all other purchasing requirements have been met. This is a standard control that should be in place for all purchase card programs.

In addition, approving official reviews did not identify and correct the deficiencies noted in this report. For example, missing documentation issues would not have occurred if approving officials performed thorough reviews. Similarly, split transactions, purchase of prohibited items, cardholders exceeding spending limits, or other problems should have been identified and resolved.

**Recommendation:** Program coordinators should ensure that approving official reviews of all cardholder transactions are established and enforced as a basic purchase card program control. In addition, reviews should be performed to evaluate approving official effectiveness; and appropriate management action should be taken when approving officials do not effectively carry out their responsibilities. All efforts should be well documented to support future reviews.

Table #2 presents the results of statistical testing that revealed problems in oversight control. Control failures were common in all three major purchase card program types across the Department.

### **Oversight Control Problems**

<b>Table #2</b>		
<b>Program Type</b>	<b>Estimated Percentage of Oversight Control Problems</b>	
	No Approving Official Review	No Advance Authorization
Federal SmartPay	13.8	26.9
Contractor SmartPay	2.7	10.7
Contractor Non-SmartPay	26.1	3.9

## **CARDHOLDER PURCHASING PROBLEMS**

### **Missing Documentation**

The reviews identified 974 instances of missing documentation. Types of missing documentation ranged from receipts and invoices to justifications for non-competitive purchases. Other documentation problems included incomplete purchase logs, missing packing slips, and lack of support for shipping charges. Departmental SmartPay guidelines require cardholders to maintain adequate supporting documentation to support purchases made. This includes receipts, invoices, and documentation to support other required activities such as competitive vendor selections and documentation to support receipt and tagging of purchased property. This is a basic requirement that should be in place for all Departmental purchase card programs. Table #3 presents statistical projections of the estimated number of transactions missing some type of documentation. Missing documentation was common in all three major purchase card program types.

**Projected Percentage of Transactions with Missing Documentation**

<b>Table #3</b>		
<b>Program Type</b>	<b>Estimated % of Transactions Missing Documentation</b>	<b>95% Confidence Interval +/-</b>
Federal – SmartPay	9.5	0.4
Contractor – SmartPay	22.8	0.6
Contractor - Non-SmartPay	33.5	0.9
<b>Projected – Department</b>	25.7	0.5

Causes of missing documentation include: cardholders not adhering to requirements; lack of training on documentation requirements; approving officials not requiring or verifying documentation during their review; and inadequate record keeping by cardholders, approving officials, and other individuals charged with maintaining records of cardholder purchases. Failure to maintain required documentation hinders the ability of approving officials and other reviewers to evaluate the validity of cardholder purchases and ensure purchase cards are not being misused.

Recommendation: Program coordinators should take all appropriate steps to ensure documentation requirements are adhered to including: establishing clear guidelines, providing essential training for cardholders and approving officials, performing periodic reviews of cardholder records for accuracy and completeness, performing quality assurance reviews to assure that approving officials are effectively performing their duties, and taking appropriate actions to address instances where approving officials and cardholders do not adhere to documentation maintenance and/or review requirements. Further, documentation should be obtained to support all transactions for which missing documentation was noted in prior reviews. Transactions that cannot be supported by documentation should be referred to the contracting

officer for consideration as unallowable cost. All efforts should be well documented to support future reviews.

### Property Controls

The reviews identified 55 purchase card transactions where property controls were not followed. Property issues included instances where cardholders and/or approving officials did not comply with requirements for documenting receipt, acceptance and/or tagging of purchased property, resulting in property not being properly tagged and/or recorded into property records. Departmental SmartPay guidelines require that all property and equipment acquired using purchase cards be tagged as government property and recorded into property records as appropriate. Property is generally to be delivered to a central receiving area to ensure proper tagging and recording. When not shipped to central receiving, cardholders are responsible for ensuring that property is properly tagged and recorded by appropriate property management officials.

Cardholders should maintain documentation to support the receipt, tagging, and recording of purchased property to support the approving officials' reviews. Documentation may include receiving reports, invoices, property recording/tagging reports, tag numbers, or other types of documentation appropriate to support the transaction. These are basic requirements that should be in place for all Departmental purchase card programs.

Causes of property control problems include: cardholders not adhering to receiving requirements; lack of training on property requirements; approving officials not requiring or verifying documentation during their review; and inadequate record keeping by cardholders, approving officials, and other individuals charged with maintaining records of cardholder purchases. Failure to effectively implement controls over the receipt, tagging, and recording of purchased property increases risk of property theft and other fraudulent activities. Further, maintaining documentation to support that these controls are adhered to (e.g., receiving reports, property reports) is critical for the approving official review and for reviewers to validate that controls are working effectively.

Recommendation: Program coordinators should take all appropriate steps to ensure property control requirements are adhered to including: establishing clear guidelines, providing essential training for cardholders and approving officials, performing periodic reviews of cardholder records for accuracy and completeness, ensuring periodic reviews are performed to ensure that property acquired using purchase cards can be accounted for and is appropriately tagged and recorded into property records, and taking appropriate actions to address instances where approving officials and cardholders do not adhere to documentation maintenance and/or review requirements. All instances of property control problems should be resolved as soon as possible. This should include obtaining documents to support all transactions where property documentation was missing and ensuring that all identified untagged and unrecorded property is appropriately tagged and recorded into property records. All efforts should be well documented to support future reviews.

### Purchase of “Prohibited” Items

The reviews identified 95 purchase card transactions totaling approximately \$110,000 involving the acquisition of items that should not have been acquired using government or contractor purchase cards due to Departmental or local prohibitions. Examples include: office supplies, travel charges, gas for GSA vehicles, conference registrations, shipping charges in excess of local limits, and printers. It should be noted that “prohibited items” as commonly used in purchase card programs does not mean illegal or fraudulent. The items noted above were all typical and legal government expenses, however, the purchase card was not an acceptable method for procuring the items per Departmental or local policies.

Departmental SmartPay guidelines identify a number of items and activities that cardholders are expressly prohibited from acquiring using their purchase cards. These include: long-term rental and lease of land or buildings; cash advances; ADP software requiring license agreements; travel services; and food, beverages, and entertainment. Guidelines also include items that are generally centrally managed and procured such as messenger services, office supplies, lease or purchase of government vehicles, printing services, etc. Many local purchase card programs treat these items as prohibited as well and/or establish more detailed internal lists of prohibited items. Cardholders must comply with all corporate and local requirements regarding prohibited uses of purchase cards.

Table #4 presents statistical projections of the estimated percent of transactions involving the purchase of prohibited items. The purchase of prohibited items occurred in all three major purchase card program types.

**Projected Percentage of Transactions Involving the Purchase of  
Departmentally or Locally Prohibited Items**

<b>Table #4</b>		
<b>Program Type</b>	<b>Estimated % of Transactions Involving Purchase of Prohibited Items</b>	<b>95% Confidence Interval +/-</b>
Federal – SmartPay	2.0	0.3
Contractor - SmartPay	3.6	0.2
Contractor - Non-SmartPay	3.8	0.4
<b>Projected - Department</b>	3.5	0.4

Causes for the purchase of prohibited items include: lack of adequate cardholder and approving official training, approving officials not effectively reviewing cardholder transactions to ensure prohibited items are not acquired, and need for more proactive reviews by program coordinators to ensure approving officials are adequately reviewing cardholder purchases. Failure of cardholders to adhere to purchasing restrictions and, more importantly, ineffective approving official review of cardholder transactions are indications of a lax control environment.

Recommendation: Program coordinators should take all appropriate steps to ensure that prohibited items are not acquired and that approving officials are effectively reviewing cardholder transactions to identify inappropriate purchases. Actions should include: establishing clear guidelines, providing essential training for cardholders and approving officials, performing periodic reviews of cardholder records to identify prohibited purchases, performing quality assurance reviews to assure that approving officials are effectively performing their duties, and taking appropriate management actions to address instances where approving officials and cardholders did not adhere to documentation maintenance and/or review requirements. All efforts should be well documented to support future reviews.

#### Spending Limits and Split Transactions

The reviews identified 20 transactions where cardholders exceeded their established single purchase limits. In addition, the reviews identified 46 instances where cardholders split transactions, thereby circumventing established purchasing limits. Cardholders are required to adhere to established single purchase and monthly spending limits. In addition, cardholders are prohibited from splitting larger purchases into multiple smaller transactions in order to circumvent these limitations. Approving officials are responsible for ensuring that cardholders adhere to these requirements. Table #5 presents statistical projections of the estimated percentage of transactions exceeding spending limits and involving split transactions.

**Projected Percentage of Transactions Exceeding Spending Limits  
And Involving Split Transactions**

<b>Table #5</b>				
<b>Program Type</b>	<b>Estimated % of Transactions Exceeding Spending Limits</b>	<b>95% Confidence Interval +/-</b>	<b>Estimated % of Split Transactions</b>	<b>95% Confidence Interval +/-</b>
Federal - SmartPay	0.3	0.3	5.5	0.3
Contractor - SmartPay	0.5	0.2	1.4	0.2
Contractor - Non-SmartPay	0.7	0.2	0.7	0.2
<b>Projected - Department</b>	0.6	0.5	1.6	0.5

Causes of transactions exceeding spending limits and splitting transactions include cardholders not adhering to requirements, transaction approval system limitations, and approving officials not effectively monitoring and reviewing cardholder transactions. Ineffective controls to prevent cardholders from exceeding or bypassing spending limits increase the Department's exposure to fraud, waste and abuse.

Recommendation: Program coordinators should take all necessary steps to ensure spending limits are strictly adhered to and that approving officials and other controls are effective in identifying instances where limits have been circumvented. Actions should include: periodic reviews of cardholder transactions to validate they are within established spending limits,

revoking cardholder privileges when limits are exceeded, and removing approving officials who inappropriately approve transactions in excess of the cardholder's delegated spending authority. All efforts should be well documented to support future reviews.

### Competition of Purchases

The reviews identified 67 transactions at five sites where appropriate competition was not performed or documentation to support the competition was not available. Departmental guidelines and Federal Acquisition Regulation Part 13 require Federal cardholders to compete purchases above the \$2,500 micro-purchase threshold among various small businesses. Contractor purchase card programs have also established requirements for competitive purchases. Table #6 presents statistical projections of the estimated percentage of transactions not properly competed.

#### **Projected Percentage of Transactions without Appropriate Vendor Competition**

<b>Table #6</b>		
<b>Program Type</b>	<b>Estimated % of Transactions Not Competed</b>	<b>95% Confidence Interval +/-</b>
Federal – SmartPay	1.5	0.3
Contractor - SmartPay	2.3	0.3
Contractor - Non-SmartPay	0.0	0.1
<b>Projected - Department</b>	1.3	0.5

Causes for purchases being made without appropriate competition include: lack of adequate training on competitive purchasing requirements, disregard for requirements, and approving officials not validating competition and/or not requiring documentation of the competitive processes. Fair and open competition is critical to ensure the best deal for the Federal Government and to support Federal small business goals.

**Recommendation:** Program coordinators should take appropriate steps to ensure that all cardholders are implementing competitive purchasing requirements. This should include: establishing clear guidelines, providing essential training for cardholders and approving officials, performing periodic reviews of cardholder records to ensure requirements are being implemented, performing quality assurance reviews to assure that approving officials are effectively performing their duties, and taking appropriate management actions to address instances where cardholders and approving officials do not adhere to or enforce competition requirements. All efforts should be well documented to support future reviews.

### Payment of Taxes

Government purchases made by Federal cardholders are not subject to Federal, state or local taxes. Similarly, contractor purchases made on behalf of the Federal Government should be tax

exempt in most cases.<sup>1</sup> Cardholders should seek other sources for acquiring items or services (where available) if a vendor refuses to recognize their tax-exempt status. The review identified 302 transactions where taxes were inappropriately paid. The total dollar value of taxes paid on these transactions totaled \$8,706. Table #7 presents statistical projections of the estimated percentage of transactions where taxes were inappropriately paid. Taxes were inappropriately paid in all three major purchase card program types.

### **Projected Percentage of Transactions Where Taxes Were Inappropriately Paid**

<b>Table #7</b>		
<b>Site</b>	<b>Estimated % of Transactions Where Taxes were Paid</b>	<b>95% Confidence Interval +/-</b>
Federal - SmartPay	7.3	0.3
Contractor - SmartPay	7.3	0.3
Contractor - Non-SmartPay	29.1	0.9
<b>Projected - Department</b>	16.2	0.4

**Recommendation:** Program coordinators should take necessary steps to ensure that the government's tax exempt status is recognized on all applicable purchase card transactions. In addition, when contractors inappropriately pay taxes, costs should be referred to the Contracting Officer for cost allowability consideration. All efforts should be well documented to support future reviews.

### **PROGRAM OVERSIGHT ISSUES**

#### **Number of Cardholders / Approving Official Span of Control**

Departmental guidelines require heads of contracting activities to authorize purchase cards to the minimum extent necessary to carry out the contracting activity's missions. Approximately 14,000 (one in eight) Federal and contractor employees had purchase cards for all or part of the period under review. Of the 14,000, there were 2,400 Federal employees and 5,000 contractor employees with purchase cards under the General Services Administration (GSA) SmartPay Program. The remaining 6,600 contractor employees held purchase cards under separate contracts with financial institutions. The large number of cardholders created span of control problems that played a key part in the large number of deficiencies noted in transaction reviews. Twenty-one of 32 sites had approving officials with approving official to cardholder ratios greater than the one to five ratio recommended in current Departmental guidelines. The two highest ratios noted in the reviews were one to 125 and one to 52. The reviews also revealed that 815 of the 2,198 cardholders in the sample had no transactions for the period reviewed, which is a further indication that opportunities might exist to reduce the number of outstanding cards.

<sup>1</sup> Contractor tax-exempt status may be subject to state and jurisdictional provisions. As such, contractors may be required to pay taxes in certain localities. Current state tax exempt policies may be accessed at: <http://apps.fss.gsa.gov/services/gsa-smartpay/taxletter/>



Causes for the proliferation of purchase cards include: placing responsibility for decisions on the need for individual purchase cards solely with program managers; lack of periodic reviews of cardholder listings to ensure the continuing, bona fide need for active cards; and lack of specific policies governing the number of cards issued or establishing criteria for identifying employees' need for the privilege of cardholder status. Excessive numbers of cardholders increases the relative risk of, and exposure to, fraud, waste and abuse. Approving officials become overwhelmed and less effective. Cardholder transactions are not reviewed thoroughly and diligently, if at all; and errors fail to be identified and corrected in a timely manner.

Recommendation: Program coordinators should take appropriate steps to ensure that the number of cardholders is maintained at the minimum necessary to carry out the activity's missions. This should include: periodically reviewing cardholder listings and usage patterns to evaluate the continuing bona fide need for outstanding cards and establishing a criteria for identifying employees' need to be issued a purchase card. Program coordinators should also establish and implement a recommended maximum approving official to cardholder ratio consistent with Departmental guidelines. All efforts should be well documented to support future reviews.

#### Accountability

The results of the reviews and discussions with program coordinators and reviewers at several sites indicated widely varying courses of actions for cardholders and approving officials who do not follow established guidelines. Our discussions indicated an environment where some program coordinators are reluctant to take definitive actions to establish and enforce individual accountability for purchasing problems. Implementing processes for accountability is a key concept for maintaining a strong control environment.

A major cause for the lack of accountability is program coordinators not establishing clear and definitive policies and criteria for implementing accountability for purchase card transactions (e.g., criteria for suspending/revoking cardholder or approving official privileges, etc.). Failure to establish and implement strong processes for accountability creates an environment where cardholders and approving officials see no consequences for negative performance and increases the risk of fraud, waste and abuse.

Recommendation: Program coordinators should take necessary steps to establish and enforce policies and criteria for implementing accountability for purchase card transactions. This should include: performing periodic reviews of cardholder transactions to identify instances where purchasing requirements are not followed, including the use of data mining techniques as appropriate; performing periodic reviews to evaluate approving official performance and considering approving official performance when cardholder purchasing problems are found that should have been discovered during approving official reviews of cardholder transactions; and taking appropriate management actions in instances where cardholders and approving officials do not adhere to established requirements. Policies should be clear and should be conveyed to cardholders and approving officials when they are issued their authorities. Strict compliance with these policies and criteria should be enforced to demonstrate management's commitment to a strong control environment. Program coordinators' position descriptions should specifically

delineate responsibilities for managing purchase card programs, and their performance plans should include activities to measure performance. All efforts should be well documented to support future reviews.

#### Cardholder and Approving Official Training

The review noted that some of the 32 sites reviewed did not require refresher training for cardholders. In addition, instances were found at some sites where it had not been documented that cardholders had received initial training on the use of purchase cards. Many of the sites indicated that they believed the cardholders had received training, but were unable to locate the documents to support this assertion. Training on the proper use of purchase cards protects both the individual cardholder and the Department by ensuring that the cardholder is aware of the policies and prohibitions associated with use of the purchase card. The need for initial training as well as refresher training is evidenced by the purchasing problems identified during the reviews.

The review also identified that approving officials were not always trained in their duties and responsibilities. Formal training, including periodic refresher training, is a must for approving officials who serve as an important internal control for ensuring cardholder transactions are in compliance with program requirements. All efforts should be well documented to support future reviews.

Recommendation: Program coordinators should take necessary steps to ensure all cardholders and approving officials receive initial and periodic refresher training on program requirements. Documentation of completion of training should be kept and training records should be reviewed annually to ensure refresher training is accomplished as required.

#### **CONCLUSIONS**

There are increased concerns over the Department's execution and oversight of Departmental and contractor purchase card programs. Recently publicized events at Los Alamos National Laboratory and at other Federal agencies have emphasized the critical need to maintain adequate internal controls and oversight over such programs.

Federal and contractor purchase card programs offer an opportunity for large-scale reductions in administrative burden and significant cost savings. While the benefits may be great, the use of purchase and travel cards to realize those benefits comes with certain inherent risks. In implementing these programs, we must design systems of internal control to help prevent fraud and/or ensure that any such occurrences are quickly identified and resolved.

Self-assessment reviews indicated that Department of Energy controls to identify and deter purchase card fraud, waste and abuse need improvement. Cardholder and program oversight issues caused control breakdowns, which led to numerous cardholder purchasing problems. The Department and its contractors should take immediate steps as recommended in this report to ensure that effective controls are implemented and enforced for all purchase card programs.

## **SUMMARY OF RECOMMENDATIONS**

### **PRIOR AUTHORIZATION AND APPROVING OFFICIAL REVIEW**

**Purchase card locations should ensure appropriate cardholder oversight controls are implemented and enforced including:**

- Establishing and enforcing independent advance authorization requirements for all transactions as a basic purchase card program control
- Establishing and enforcing approving official reviews of all cardholder as a basic purchase card program control
- Performing and documenting reviews to evaluate approving official effectiveness

### **DOCUMENTATION**

**Purchase card locations should take all appropriate steps to ensure documentation requirements are adhered to including:**

- Establishing clear guidelines regarding documentation requirements and ensuring they are followed
- Obtaining copies of all missing documentation (e.g., receipts, invoices) or taking other appropriate steps to validate the propriety of the transactions in question (all locations that participated in the 32-site review)

### **PROPERTY CONTROLS**

**Purchase card locations should take all appropriate steps to ensure property control requirements are adhered to including:**

- Establishing clear guidelines regarding property control requirements for property purchased via purchase cards
- Performing periodic reviews to ensure that property acquired using purchase cards can be accounted for and is appropriately tagged and recorded into property records
- Resolving previously identified property issues including ensuring that property is visually identified, tagged, and recorded into property records, and obtaining missing

property documentation such as receiving reports, packing slips, etc. (all locations that participated in the 32 site review)

### **PROHIBITED ITEMS**

**Purchase card locations should take all appropriate steps to ensure that prohibited items are not acquired by:**

- Establishing and enforcing clear guidelines regarding prohibited items

### **SPENDING LIMITS AND SPLIT TRANSACTIONS**

**Purchase card locations should take all necessary steps to ensure cardholders adhere to spending limits including:**

- Establishing and enforcing clear guidelines regarding spending limits and prohibitions on splitting purchases

### **COMPETITION**

**Purchase card locations should take appropriate steps to ensure that all cardholders are implementing competitive purchasing requirements as necessary including:**

- Establishing and enforcing clear guidelines regarding competitive purchasing requirements

### **PAYMENT OF TAXES**

**Purchase card locations should take necessary steps to ensure that the government's tax exempt status is recognized on all applicable purchase card transactions including:**

- Establishing clear guidelines regarding tax-exempt requirements
- Referring contractor costs associated with taxes that were inappropriately paid to the Contracting Officer for cost allowability consideration

## **NUMBER OF CARDHOLDERS / APPROVING OFFICIAL SPAN OF CONTROL**

**Purchase card locations should take appropriate steps to ensure that the number of cardholders is maintained at the minimum necessary to carry out the activity's missions including:**

- Establishing and implementing a recommended maximum approving official to cardholder ratio consistent with Departmental guidelines
- Reviewing cardholder listings and usage patterns periodically to evaluate the continuing bona fide need for outstanding cards
- Establishing criteria for identifying employees' need to be issued a purchase card.

### **Cardholder and Approving Official Accountability**

**Purchase card locations should take necessary steps to establish and enforce policies and criteria for implementing accountability for purchase card transactions including:**

- Establishing policies that are clear and conveying them to cardholders and approving officials at the time they are issued their authorities
- Enforcing strict compliance to these policies to demonstrate management's commitment to a strong control environment
- Performing periodic reviews of cardholder transactions including the use of data mining techniques, as appropriate, to identify instances where purchasing requirements are not followed
- Performing periodic reviews to evaluate approving official performance and considering approving official performance when cardholder purchasing problems are discovered that should have been discovered during approving official reviews of cardholder transactions.
- Taking appropriate management actions in instances where cardholders and approving officials do not adhere to established requirements

## **Cardholder and Approving Official Training**

**Purchase card locations should take necessary steps to ensure all cardholders and approving officials receive appropriate training including:**

- Establishing training programs for both cardholders and approving officials
- Requiring initial and periodic refresher training for cardholders and approving officials
- Maintaining adequate records to support completion of training and reviewing records annually to ensure refresher training is accomplished as required